JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q1 2019 Commentary

	Q1 2019	YTD 2019	Since Inception
Jemekk Long/Short Fund	7.26%	7.26%	226.29%
S&P TSX Composite	13.29%	13.29%	183.86%
S&P/TSX Small Cap Index	10.71%	10.71%	52.29%

* Benchmarks quoted in Total Returns

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The violent sell off in Q4/18 ultimately based on fear was met with a 'V' shaped recovery in the new year largely due to the dovish tone from the Fed. A combination of a cautious Fed and thawing US-China trade relations have propelled stocks this year ending the quarter within spitting distance from all-time highs. The TSX was up an astonishing 13.3% while the TSX Small Cap was up 10.7%. The Long/Short Fund had a solid quarter posting a 7.3% return. Not keeping up with the torrid pace of the markets but respectable performance given the volatility exposure of the Fund versus the markets. We will discuss Fund specifics and our outlook for the year below.

Major North American markets had the best first quarter in a decade bouncing off the worst December since 1931. What does this tell us? We believe the market is overshooting in both directions and managing this kind of volatility isn't for the faint of heart. The TSX was no exception performing extremely well in the quarter with every sector in the green lead by Health Care and Tech. Looking at specific names we wanted to highlight that out of the top ten performing stocks in the TSX six of the ten were cannabis related. Something we do not see repeating itself. The TSX Small Cap followed a similar path to the TSX - impressive performance with all but one sector in the green and three of the top ten gainers in the weed space. More on our cannabis view and approach later. As for laggards in the indices the culprits were predominantly commodity focused stocks. We would be remiss not to mention the 30% rally in oil in the quarter. At the time of writing Brent is now trading above the psychological level of $70 and now above the long-term average - something technicians watch closely. The sentiment for oil has definitely turned more positive and signs point to a continued rally. A stark turnaround from the end of last year when oil dropped to an 18-month low on worries of too much supply and a global growth slowdown. The outlook is brighter now as investors look ahead to summer when oil demand tends to rise as drivers hit the road. The Fund has increased exposure to Energy as we see more fuel left in the rally.

As for interest rates, weak economic data suggests the BoC will not increase rates this year. There are some camps that believe we could even see a rate cut this year. We acknowledge the Canadian economy is not very strong but also do not believe it's that dire. However, one data set we are watching closely is household debt. For example, Canadians owe $2.2t which as a share of GDP is the highest among the G7. Combining household debt ballooning and a stretched housing market (albeit the housing market has cooled as of late) could lead to a very dangerous cascading effect. Moreover, delinquencies in auto loans hit a level in the first quarter we have not seen since 2008. Something to monitor.

The S&P 500 moved almost in tandem with the TSX up 13.7% for the quarter. While the Dow and Nasdaq were up 11.8% and 16.8% respectively. The quarter certainly benefited from oversold conditions and tax loss selling that occurred in Q4. The market's near unyielding rally from the boxing day low has been nothing short of astounding. Accompanied by remarkably low volatility despite material issues like Brexit, tariff trade wars, political tensions and global growth concerns. Much of this rally can be attributed to the dovish tone of the Fed - something referred to in our last commentary as the 'Powell Put.' Based on the Fed's recent language they appear much more accommodative and estimates now call for no hikes for the balance of the year, which is very supportive of a continued rally. As it stands now, there is still no formal trade deal with China. This ongoing negotiation has led to an elevated level of uncertainty. But we see signs of this trade war coming to an end with more commentary showing progress in trade dealings. To be clear, we are not out of the woods yet and believe the market is pricing in some sort of agreement passing so if this does not come to fruition there will be a negative reaction. We pay attention to but not panicked by the recent yield curve inversions (when the short end rises above the long end) as a signal for a recession.

We do not see a recession occurring in 2019. The inverted yield curve needs to be monitored but studies show only when the inversion stretches for at least 10 weeks and only then a much greater weight should be applied to a recession in the next 12 months. This has not occurred yet allowing us to say thaere will be no recession in 2019. But one thing to note, even when the yield curve inverts for a long period of time the market rallies materially as it heads into the recession. Another reason supporting a bullish view.

The Fund started Q1 45% net long but once the Fed pivoted to a more dovish stance it made us more constructive on the market and we increased our exposure ending the quarter 70% net long. In terms of market performance, Q1/19 was almost the mirror image of Q4/18. The Fund maintained a conservative stance entering the year as the selloff witnessed in Q4 looked like it had strength to continue into Q1 2019 - it didn't. But we are still pleased with how the Fund fared given the material macro risks in the economy and its hedged bias.

Gains in the quarter for the Fund came from a breadth of sectors but mainly from cannabis related names. Given the significant interest and staggering returns of the group, we thought it may make sense to address the opportunity and our participation to date in the cannabis space. Clearly the early legalization of cannabis in Canada (2nd developed market in the world to do so), on the heels of a developed medical market in the US, has created investment speculation in the group and outsized returns. We at Jemekk were early in the space, reviewing, but not participating in the private rounds of some of the early players like Tweed (now Canopy) and Mettrum. When the public markets developed, we participated, to a limited extent in several names, including Aurora, Organigram and HEXO amongst others. As the US industry continues to develop, we have moved our focus south and added names like Curaleaf and Acreage. Although the group has been a positive contributor overall, the volatility and almost "uninvestable" nature of the group has limited our participation, never exceeding 8% of the Fund. Although we continue to follow the group, and add more resources to the theme, we would expect the weighting to the industry will remain limited for the time being.

Although investors, particularly retail, remain uber-focused on cannabis, we think it is important to highlight that gains in the Fund came from many different areas.

Fund stalwarts like Shopify, Brookfield Business Partners, Boyd Group and precious metals continued to add positive alpha to the portfolio. Further, new, yet to be discussed names, like Zendesk, Polaris Infrastructure and Wheaton Precious Metals were also positive contributors and we look forward to discussing these names and their contribution to your returns further in the future. An example of this is Zendesk, a cloud-based service platform allowing companies to better manage customer support inquiries. ZEN provides its 125,000 global clients the tools to communicate with its customer requests from any connected device. This is key as individuals move away from traditional phone calls to alternate means of communications. We will discuss ZEN in more detail in an upcoming commentary, but we are very bullish on the name and see a lot of Salesforce.com DNA in Zendesk.

As we have stated before the market to us has been swinging too far in each direction resulting in a challenging investing environment. In the quarter, we celebrated the 10-year anniversary of the bull market from the lows set in March 2009. With rising tides lifting all boats largely behind us - we look to the next decade and can say confidently active management is more important than ever as we navigate these choppy waters. We continue to be selective and opportunistic and most of all patient. We say this because we believe some of the big gains from the quarter were from managers frustrated with underperforming and throwing in the towel to start chasing the market - Fear of Missing Out (FOMO) is real.

Thank you for your continued support and we look forward to reporting to you at the end of the second quarter 2019.

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